FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/23/2008

[redacted] address [redacted] was interviewed telephonically. After being advised of the identity of the interviewing Agent and the nature of the interview, [redacted] provided the following information:

b6
b7C

[redacted] Kroll, Inc. (Kroll) and now works for [redacted]

While employed at Kroll, [redacted] was involved in Kroll's review of Freddie Mac's hedge accounting. Kroll was hired by the Office of Federal Housing Enterprise Oversight (OFHEO) to conduct the review. From the beginning of the project, Kroll maintained the position that Freddie Mac had not done the hedge accounting properly. Their opinion did not change throughout the project.

The following Kroll employees also worked on the review project: [redacted] and [redacted] was not as involved in the project but did attend some of the meetings. [redacted] copied down some of PricewaterhouseCoopers's (PwC's) work papers. [redacted] also left Kroll. [redacted]

1-2

dp

b6
b7C

[redacted] spoke to [redacted] told [redacted] that he had already spoken to the FBI.

b6
b7C

Investigation on 12/22/2008 at Manassas, Virginia (telephonically)

b6
b7C

File # 318F-WF-238917-KROLL Date dictated NA

by SA [redacted]

Freddie / [redacted] 302

-17

[illegible]

[redacted] and Kroll each have CD which contains a copy of Kroll's final report, their supporting documents and their correspondence with OFHEO. Kroll mostly dealt with [redacted] at OFHEO. [redacted]s E-mail address while at Kroll was [redacted] Kroll also has meeting notes which contain a list of attendees at each meeting. b6 b7C

[redacted] was the most helpful Freddie Mac employee who assisted Kroll with their review. [redacted] thought that every other Freddie Mac employee had justified that the accounting that Freddie Mac had done in 2001 and 2002 was acceptable. [redacted] of Freddie Mac, in particular, had rationalized that the accounting was acceptable. [redacted] was a Freddie Mac employee who was in a difficult position. He was uncomfortable with the conclusions made by Kroll because they were in opposition to decisions that he [redacted] had made in the past. b6 b7C

[redacted] and the other Kroll employees personally signed a non-disclosure agreement with OFHEO. b6 b7C

Kroll's Divisional Counsel in New York is [redacted], office telephone number [redacted].

FD-302 (Rev. 10-6-95)

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 01/13/2009

[redacted] the Office of Federal Housing Enterprise Oversight (OFHEO), 1700 G Street NW, Washington, DC, was interviewed at his place of employment. Also present for the interview was [redacted] for OFHEO. After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information:

b6
b7C

[redacted]

b6
b7C

did not have much experience with Financial Accounting Standards Rule 133 (FAS 133) prior to his involvement in OFHEO's recent exam of Freddie Mac's cash flow hedge accounting. [redacted] did have some experience with FAS 80 which was FAS 133's predecessor.

OFHEO's review examined whether or not Freddie Mac's practice of applying FAS 133 in 2001 and 2002 was appropriate. [redacted] started working on the Freddie Mac exam in approximately [redacted] but OFHEO had started the exam before [redacted] came on to the project. [redacted] became more like [redacted] when OFHEO hired Kroll Inc. (Kroll) to assist them with the review. [redacted] role became [redacted] Kroll was hired because OFHEO needed expertise on FAS 133. [redacted] was under contract with Kroll.

1-3
dp

b6
b7C

Freddie Mac was notified of the initiation of the exam by a request letter from OFHEO. The letter was sent to Freddie Mac sometime between April and June 2007. OFHEO also had a meeting with Freddie Mac in approximately April 2007 to notify them of the exam. A number of meetings were held throughout the Summer and Fall of 2007 with participants from OFHEO, Freddie Mac, Kroll, and Freddie Mac's auditor, PricewaterhouseCoopers (PwC). OFHEO also made a number of requests for documents from Freddie Mac and a request to PwC to review their workpapers.

Kroll's conclusion was that Freddie Mac had not done the accounting in accordance with FAS 133. OFHEO felt that the

Investigation on 01/13/2009 at Washington, DC

File # 318F-WF-238917-KROLL Date dictated NA

b6
b7C

by SA
SA [redacted] : dp

-11

Freddie/ [redacted] 302

W7DB

 b6 b7C

accounting issue was not sufficiently clear enough to object to Freddie Mac's accounting.

At a meeting in December 2008, OFHEO presented their tentative conclusions to Freddie Mac which at the time were consistent with Kroll's findings. OFHEO said that based on the documents that they had reviewed thus far, OFHEO could not assert that Freddie Mac had done the accounting appropriately. Personnel from Freddie Mac, OFHEO and Kroll (including [redacted]) were at this meeting. Freddie Mac responded that they did not agree and wanted to pull together additional documents to show OFHEO why they were incorrect. On approximately 12/12/2008, OFHEO had a similar meeting where OFHEO shared the same tentative conclusions with PwC. PwC also disagreed. They told OFHEO that they fully expected that Freddie Mac would be able to provide documents that would make OFHEO comfortable. b6 b7C

In late December 2007 or early January 2008, Freddie Mac provided additional documents. In January 2008, another meeting was held where Freddie Mac and PwC presented their side of the argument. After this meeting, OFHEO was still not convinced. The issue was never clear cut but it looked to [redacted] like errors had been made. He believed that the best solution was to take the issue to the U.S. Securities & Exchange Commission (SEC).

Freddie Mac pressed OFHEO to provide their tentative conclusions in written form. On approximately 1/16/2008, [redacted] sent a summary of OFHEO's concerns to Freddie Mac. [redacted] thought that the written summary was sent to [redacted] After the written summary was issued, [redacted] had trouble getting responses from Freddie Mac. [redacted] had a conversation with [redacted] and asked if Freddie Mac had any concerns with OFHEO's written summary. [redacted] indicated that he was instructed not to speak to OFHEO. [redacted] believed that Freddie Mac wanted the issue to be addressed by their upper management and OFHEO's. In a February 2008 meeting, it was clear to [redacted] that Freddie Mac wanted to take the issue to the top officials at OFHEO. b6 b7C

[redacted] thought that Freddie Mac's accounting was closer to wrong than to right. He also thought that the issue was not convincing enough to cause turmoil in the mortgage markets. By late January 2008, [redacted] felt that the only solution was to take the issue to the SEC and felt strongly that the issue would be taken to the SEC. He and Kroll started preparing a "white paper" to issue to the SEC for their opinion. b6 b7C

318F-WF-238917-KROLL

Continuation of FD-302 of [redacted], On 01/13/2009, Page 3

Freddie Mac believed that if the issue was presented to the SEC, it would have been a disclosure event.

[redacted] recommended to his superiors at OFHEO that the accounting was not a clear-cut issue and that OFHEO should force Freddie Mac to take the issue to the SEC for a determination, or that OFHEO itself should take the issue to the SEC. [redacted] made his recommendation via E-mail message to [redacted] at OFHEO.

b6
b7C

[redacted] E-mail offered three options for OFHEO to recommend to Freddie Mac. First, that [redacted] found no errors with Freddie Mac's accounting. Second, that the accounting issues were unclear but that [redacted] had no issue with Freddie Mac's accounting. And finally, that the accounting issues were unclear and the issue should be taken to the SEC for a determination. In the E-mail, [redacted] said that he could not support option one based on the technical issues at hand. He also said that he specifically recommended option three. OFHEO management chose option two and [redacted] did not receive an explanation as to why that was their final decision.

b6
b7C

Freddie Mac never pressured [redacted] or OFHEO to issue a specific conclusion. They did press OFHEO to resolve the issue as soon as possible because Freddie Mac was in the process of issuing their year end report.

b6
b7C

[redacted] is not aware of any violations of disclosure rules by Freddie Mac. Freddie Mac did not become an SEC registrant until mid 2008 and prior to registration their disclosure requirements were less stringent.

FD-302 (Rev. 10-6-95)

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 01/13/2009

[redacted] of the Office of Federal Housing Enterprise Oversight (OFHEO), 1700 G Street NW, Washington, DC, was interviewed at her place of employment. Also present for the interview was [redacted] OFHEO. After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information: b6 b7C

OFHEO decided to conduct an exam in 2007 of the cash flow hedge accounting that Freddie Mac practiced in 2001/2002 because OFHEO was concerned about the adequacy of Freddie Mac's core capital. In 2007, Freddie Mac had a large balance in Accumulated Other Comprehensive Income (AOCI) which was impacted by the cash flow hedge accounting that Freddie Mac had used in 2001/2002. OFHEO also had a new director at the time who was focused on the adequacy of capital for the government sponsored enterprises (GSEs) that OFHEO regulated. b6 b7C

OFHEO had not previously conducted an exam on this issue. Financial Accounting Standards Rule 133 (FAS 133) was one of the few accounting strategies that Freddie Mac did not change during their 2003 restatement. OFHEO did not look at FAS 133 issues with Freddie Mac during Freddie Mac's accounting restatement in 2003 but Freddie Mac's auditor, PricewaterhouseCoopers (PwC), told OFHEO that they had looked at it and found no problems with the accounting. Even though PwC had looked at the issue in 2003, OFHEO wanted to be comfortable that the accounting was proper.

1-3 dp

In the early stages of the review, OFHEO focused on two issues; the shared risk of Freddie Mac's hedging instruments and whether or not Freddie Mac's Key Term Offset (KTO) approach was reasonable. OFHEO also looked at whether or not Freddie Mac's forecasts were probable but they were able to resolve this issue internally before employing the assistance of Kroll Inc. (Kroll). OFHEO's exam had commenced several months before Kroll was brought onboard.

OFHEO did not have the number of staff members necessary to handle the time that needed to be allocated to the review. OFHEO staff was versed in FAS 133 but they were not experts and FAS 133 was complicated. [redacted] wanted FAS 133 expertise for OFHEO's review. OFHEO hired Kroll and Kroll brought [redacted] onto the project because [redacted] wanted his level of expertise. [redacted] b6 b7C

Investigation on 01/13/2009 at Washington, DC

File # 318F-WF-238917-KROLL Date dictated NA b6 b7C

by SA SA [redacted] :dp

Freddie/ [redacted] 302 — 12

W2AB

[redacted] for the U.S. Securities & Exchange Commission (SEC). [redacted] had also worked for OFHEO previously.

Freddie Mac was aware that OFHEO was conducting an exam very early during the exam process. OFHEO issued a request letter to Freddie Mac which notified them of OFHEO's intent to conduct the exam. b6 b7C

In 2007 and 2008, during the time of OFHEO's exam, there were very few Freddie Mac employees that had been around in 2001 and 2002. PwC did have several employees who had been around in 2001 and 2002.

A meeting was held which took place in early December 2007 (or possibly November 2007) with all of the main parties in the room. The purpose of this meeting was to let Freddie Mac know the status of OFHEO's review and for OFHEO to highlight their issues to Freddie Mac. Because of the differences of opinion on the accounting issues, at this meeting, [redacted] encouraged Freddie Mac to take the issue to the SEC for a determination. b6 b7C

By February 2008, Kroll had a more concrete draft of their findings. Another meeting was held in early February 2008 with numerous participants from Freddie Mac, PwC, Kroll, and OFHEO (including [redacted]. There were experts on both sides of the accounting argument. On one hand, Kroll (and [redacted] felt that Freddie Mac had not done the accounting properly. On the other, Freddie Mac and members of PwC's national office felt that the accounting was correct. No definitive facts emerged from the February 2008 meeting. [redacted] could not conclusively say that Freddie Mac had made Generally Accepted Accounting Practices (GAAP) errors. [redacted] could also not say that they had not made errors. b6 b7C

[redacted] contrasted her Freddie Mac conclusions against the conclusions she reached during Fannie Mae's 2003 restatement. With Fannie Mae, [redacted] was able to definitely say that Fannie Mae had violated a specific accounting instruction. With Freddie Mac, she could not specifically express a violation.

One issue that complicated OFHEO's review was that the literature available on FAS 133 in 2001 and 2002 was evolving. Experts could not even agree on which literature should be used for FAS 133, let alone how to interpret the literature. Much of the literature was contradictory. Because of the inconsistencies in the b6 b7C

 b6 b7C

literature, the SEC came out with further guidance on FAS 133 in March 2007.

The issue under review at OFHEO was whether or not Freddie Mac's hedges were effective. In response to OFHEO's review, Freddie Mac reran their 2001 and 2002 numbers to see if their instruments did in fact share risk and were in fact effective. The rerun analysis was [redacted]s idea. Freddie Mac's first attempt to do the rerun (which only took a day or so) was not acceptable to OFHEO. Freddie Mac went back and did a more thorough rerun which took several weeks and also ran up against Freddie Mac's deadline to release their year end financial numbers. The results of the second rerun analysis showed that Freddie Mac's hedges were within an acceptable plus or minus range which made OFHEO comfortable. b6 b7C

Based on their review, [redacted] came up with three plausible recommendation options for Freddie Mac and presented them to OFHEO management. The first option was that OFHEO did not find any errors with Freddie Mac's accounting. The second was that the experts had differing opinions and to avoid disruption to the mortgage markets, OFHEO did not have a problem with the accounting. And third was that OFHEO recommended that Freddie Mac take the issue to the SEC for a final determination. The third option would have meant that Freddie Mac would have needed to disclose the review. It would have been an SEC 8k event.

[redacted] relayed to OFHEO Director James Lockhart that she could not definitely say that Freddie Mac had or had not made any errors. OFHEO's management chose option two. The decision was made by [redacted] Lockhart, [redacted] [redacted] recalled [redacted] b6 b7C

[redacted] was then asked why OFHEO's conclusion sided with Freddie Mac's and PwC's experts rather than with Kroll's experts. [redacted] responded that there was so much diversity in the literature at the time and that she could not come to a definitive conclusion.

From at least as early as December 2007 and continuing through the remainder of the review, [redacted] asked Freddie Mac to bring the issue to the SEC for a determination. Freddie Mac never brought the issue to the SEC. They felt strongly that they had done the accounting properly. They were further confident since their own auditor, PwC, had no disagreement with the company which is the typical reason that an issue is brought to the SEC for an opinion. b6 b7C

318F-WF-238917-KROLL

b6
b7C

From at least December 2007 and continuing through June 2008, Freddie Mac was in the informal inquiry process for registration with the SEC.

The exam was contentious between Freddie Mac and OFHEO. Freddie Mac was not happy that OFHEO was looking so far back in time. Freddie Mac was not responsive to OFHEO early on in providing the requested information. Their responsiveness improved after the December 2007 meeting.

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 01/22/2009

b6
b7C

[redacted] was interviewed telephonically. Also present for the interview were [redacted] - legal counsel for Kroll, Inc. (Kroll). After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information:

[redacted] has worked for Kroll for [redacted] Prior to Kroll, [redacted]

b6
b7C

Kroll was engaged by the Office of Federal Housing Enterprise Oversight (OFHEO) in approximately June 2007 to conduct a review of Freddie Mac's cash flow hedge accounting. [redacted] Prior to Kroll's work with Freddie Mac, [redacted] had no background with Financial Accounting Standards Rule 133 (FAS 133).

[redacted] started on the Freddie Mac project in [redacted] was brought on to review PricewaterhouseCoopers's (PwC's) workpapers [redacted] and others from Kroll including [redacted] traveled to Washington, DC to meet with PwC. [redacted] and others on PwC's audit team were present at the meeting. [redacted] of OFHEO also attended the meeting to assist Kroll. The purpose of this meeting was mostly for Kroll to gather information. [redacted] did not think that Kroll had developed any preliminary findings by the time of the PwC meeting and therefore did not think that Kroll shared any findings with PwC at this time. Kroll returned to PwC the following two weeks to complete the review of their workpapers.

1-2

b6
b7C

[redacted] attended other meetings with Freddie Mac audit personnel. [redacted] had conversations with Freddie Mac's audit team at these meetings about Kroll's preliminary findings. Much of FAS 133 was subject to interpretation and [redacted] had a number of discussions with Freddie Mac staff about the interpretations.

b6
b7C

Investigation on 01/22/2009 at Manassas, Virginia (telephonically)

File # 318F-WF-238917-KROLL Date dictated NA

b6
b7C

by SA
SA [redacted] :dp

Freddie/[redacted]302

-13

2/2/13

[redacted] on the Freddie Mac project. [redacted] role in this capacity was to gather data and conduct analysis. [redacted] specifically those that focused on Freddie Mac's debt issuances. [redacted]s contributions to the Kroll report were located on [redacted] [redacted] found that Freddie Mac did not issue enough debt to cover their swaps. As an example, Kroll found that Freddie Mac had only issued $1,000,000 in debt for $2,000,000 of hedges. The findings in the sections of the report assigned to [redacted] were [redacted] on this section of the report. [redacted] of Freddie Mac provided the data to Kroll to conduct [redacted]s portion of the review. [redacted] shared [redacted] findings with OFHEO verbally but [redacted] does not recall having conversations with Freddie Mac about the findings in [redacted] of the report. Kroll's main point of contact at Freddie Mac was [redacted]

b6
b7C

Freddie Mac stated that they did issue enough debt to cover their swaps. This area of FAS 133 was also subject to interpretation. There was an argument that a time lag (possibly up to one month) was allowable to issue the debt. Kroll challenged Freddie Mac on this point.

b6
b7C

[redacted]

b6
b7C

[redacted]'s overall opinion was that Freddie Mac's documentation was insufficient. The "Cash Flow 01" and "Cash Flow

10" hedging strategies that Freddie Mac entered into were not in accordance with FAS 133 guidance at the time and Freddie Mac should not have deferred the losses associated with those hedges. The guidance on FAS 133 was not black and white at the time, nevertheless [redacted] felt that Freddie Mac's hedges were outside of the acceptable interpretations of FAS 133. FAS 133 and its guidance was complicated.

b6
b7C

Freddie Mac always held the position that the cash flow hedge accounting they had done in 2001 and 2002 was correct. At no time did any Freddie Mac employee indicate otherwise.

[redacted] does not know what OFHEO's final conclusion was. [redacted] does not recall seeing their conclusion letter.

b6
b7C

[redacted] believed that Kroll dated their final report February 27, 2008 because Kroll was ninety-nine percent complete with their work by this time. From February 2008 to May 2008, Kroll was finalizing the report and preparing binders but they made no substantial changes to their findings.

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/17/2009

GRAND JURY MATERIAL - DISSEMINATE PURSUANT TO RULE 6(e)

[redacted] b6 b7C

[redacted] Also present for the interview were [redacted] After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information: b6 b7C

EDUCATION & WORK HISTORY

[redacted] b6 b7C

4-3, 5-7 OP

FAS 133

Financial Accounting Standard Rule 133 (FAS 133) provided guidance for hedge accounting in two areas; fair value hedge

Investigation on 03/10/2009 at Los Angeles, California

File # 318F-WF-238917-KROLL Date dictated NA

by SA SA [redacted] :dp dp b6 b7C

- 15

Freddie/ [redacted] 302

WJAB

accounting and cash flow hedge accounting. Kroll's review of Freddie Mac's hedge accounting only encompassed cash flow hedge accounting. If a company met certain criteria then the company was allowed to utilize FAS 133. FAS 133 was beneficial to companies because it allowed them to defer losses by reporting those losses in Accumulated Other Comprehensive Income (AOCI) instead of reporting them as losses in the current period on their financial income statement. This was particularly relevant to Freddie Mac because Freddie Mac's core capital was not impacted by AOCI. There is ongoing interpretation of FAS 133. In particular, there was a period of evolution of the rules of FAS 133 soon after the accounting policy was first adopted. b6 b7C

Freddie Mac's regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), made the decisions on how Freddie Mac's core capital was calculated. Freddie Mac's ability to use FAS 133 was important because the use or avoidance of hedge accounting by Freddie Mac affected their core capital requirement.

[redacted] had little, if any, experience with FAS 133 prior to working on the project for OFHEO/Freddie Mac. [redacted] supplied the FAS 133 experience and Kroll supported [redacted] b6 b7C

HEDGE TRANSACTIONS

Companies use hedges to offset business transactions. Freddie Mac used interest rate swaps to offset notes they had issued. Freddie Mac used hedges on forecasted debt transactions.

As part of their operational business, Freddie Mac provides loans to homeowners. In order to fund their daily cash flow needs, Freddie Mac borrows funds on a short term basis (approximately 30 days up to one year). Freddie Mac often renews those loans for an indefinite period of time into the future which exposes Freddie Mac to interest rate risk in the future. If interests rates move up in the future, Freddie Mac would lose money because they would be borrowing at a higher rate than the income they were receiving from the underlying mortgage borrower. If interest rates go down, they would make money. In order to manage the interest rate risk on their future short term loans, Freddie Mac entered into interest rate swaps.

In these hedge transactions, the mortgage obligation was the underlying asset, the hedged item or hedged transaction was the

loan obtained for cash needs, and the hedging instrument was the interest rate swap. b6 b7C

Freddie Mac obtained loans by issuing notes or making an offer through an auction, possibly obtaining funds directly from the Federal Reserve. [redacted] thought that because of the implied government guarantee, Freddie Mac was able to borrow funds at rates cheaper than others.

[redacted] understood that Freddie Mac's goal for borrowing short term funds and subsequently entering into hedges on those loans was to help them operationally fulfill their stated mission of providing mortgage loans to the public. Freddie Mac did not treat these hedge transactions as a source of profit making as it was very difficult to predict future interest rates and therefore the profitability of the transactions. Freddie Mac used hedge accounting to manage risk. [redacted] of Freddie Mac explained Freddie Mac's strategy to [redacted] and Kroll. They used hedging instruments as a way to manage the duration and convexity of their portfolio. b6 b7C

Freddie Mac indicated to Kroll that they had a desire to have steady earnings. Their earnings were subject to large swings depending on the movement of interest rates.

The interest rate swaps that Freddie Mac entered into were "pay fixed, receive float" swaps. This meant that the counter party with whom Freddie Mac entered the swap received a fixed payment in the future while Freddie Mac received a floating interest rate in the future. The contracts had zero value and neither party paid for the hedge at the time the hedge transaction was initiated. The contract laid out the fixed rate the counter party would receive in the future and the interest rate level that Freddie Mac would receive. The future value of the hedge was the spread between the fixed rate and variable rate. The two parties often negotiated a plus or minus spread to the interest rate in the contract. As an example, the contract may list the LIBOR rate plus one percent.

KROLL FINDINGS

Kroll was asked to review approximately 1,400 of Freddie Mac's hedges during the relevant time period.

b6 b7C

The totality of the problems uncovered by Kroll related to Freddie Mac's cash flow hedge accounting is the reason why Kroll felt that Freddie Mac was not qualified to use FAS 133. In [redacted]'s opinion, any one of several issues uncovered by Kroll were enough on their own merit to disqualify Freddie Mac from using FAS 133. [redacted] believed that if Freddie Mac did not meet the proper criteria then they should be disqualified from using FAS 133.

[redacted] signed the Kroll report dated 2/27/2008 and believes it to be accurate.

[redacted] and Kroll felt from the beginning of their review that Freddie Mac had done macro hedging and [redacted] did not think that macro hedging was the purpose of FAS 133. b6 b7C

[redacted] advised that page seven of the Kroll report contained a good summary in bullet point format of the issues Kroll found with Freddie Mac's cash flow hedge accounting. The issues for the most part were listed in order from most severe violation of FAS 133 to least. [redacted] felt that the first four issues outlined in the Kroll report could each stand on their own as reasons enough to disqualify Freddie Mac from using FAS 133. The following is [redacted]s summary of the first four bullet point issues: b6 b7C

1. **POOL OF HEDGED DEBT SHARED RISK EXPOSURE**

In order to qualify for FAS 133, for one hedge to be used to offset several transactions or a pool of hedged transactions, it had to be likely that the instruments in the pool would move together and share similar risk exposure. There was not a bright line test under FAS 133 to determine if they pool moved together.

Throughout their review, Kroll received numerous different explanations from Freddie Mac on how they calculated the correlation of the hedged items in their pool. Kroll conducted regression analysis on one of the explanations that Freddie Mac provided. Freddie Mac gave Kroll their definition of the band within which the numbers should fall in order to be eligible. Kroll's regression analysis results uncovered that the numbers fell outside of the proper band as defined by Freddie Mac. Not only did the numbers not meet Freddie Mac's own criteria, but Kroll also had

serious questions about whether the method that Freddie Mac explained to Kroll was even appropriate under FAS 133. b6 b7C

Freddie Mac's response to Kroll on this issue was that they tested the correlation after the fact and found out that it worked. [redacted] did not think that the after the fact test was acceptable under FAS 133.

In 2004, short and long term interests began to separate and Freddie Mac's own tests began to fail. Freddie Mac admitted that during this time period their tests were no longer valid. Therefore, Freddie Mac terminated their FAS 133 election in 2004 and stopped accounting for those hedge transactions under FAS 133. However, they left the losses that had previously accrued in AOCI in AOCI.

2. KEY TERM OFFSET ISSUE

FAS 133 allows a short cut method for determining if pooled hedged instruments were correlated. Key Term Offset (KTO) was a method created by Freddie Mac and as far as [redacted] knows, no other companies use KTO. Kroll believed that Freddie Mac's KTO method was a back door short cut method for determining if pooled hedged instruments were correlated. b6 b7C

Kroll felt that there was risk between the 90 day reset of interest rate swaps and the actual maturity of their hedged items and this created a potential situation where the hedges may be ineffective.

3. FREDDIE MAC'S KTO METHOD WAS NOT REASONABLE

Under FAS 133, companies are required to assess effectiveness of their hedges and also calculate the ineffectiveness of their hedges. Calculating effectiveness is required only if you do not use the short cut method. Freddie Mac claimed that they did not use a short cut method but it was [redacted]'s opinion that KTO was a modified version of the short cut method. b6 b7C

Kroll did not think that Freddie Mac calculated the ineffectiveness of their hedges appropriately. FAS 133 requires that a reasonable basis be used for calculating ineffectiveness.

b6
b7C

FAS 133 offers three acceptable tests that can be used and Freddie Mac used the one with the lowest standard.

Under the third test method, Freddie Mac estimated their ineffectiveness based on their hedges performance against a similar asset. Freddie Mac did not use any math to calculate their ineffectiveness or make this estimation. Not only did that not use any math, but the item Freddie Mac used as the similar asset for comparison purposes was the actual hedged item. Essentially, Freddie Mac estimated the ineffectiveness of their hedges by basing them off of the hedges' own hedged item.

4. ZERO EFFECTIVENESS ISSUE

FAS 133 had a strict checklist to use to determine if a company qualified for the short cut method of determining effectiveness. Freddie Mac knew that they did not meet the requirements of that checklist.

Under the KTO method, Freddie Mac's assessment of effectiveness assumed that the pooled hedged items were more like than they actually were. In addition, Freddie Mac used FAS 133's lowest standard method of calculating effectiveness. This led to Freddie Mac's back door recreation of the short cut method.

Another issue highlighted in the Kroll report (at the end of the bullet point list) was that Freddie Mac lacked the proper documentation to support their hedging strategies; an issue required under FAS 133.

KROLL's CONTACT WITH OFHEO, FREDDIE MAC AND PwC

b6
b7C

Kroll and [redacted] were involved in many discussions with Freddie Mac, OFHEO and PwC; including meetings and phone calls.

In the Spring or Summer of 2007, [redacted] attended a meeting that included [redacted] of Kroll, and [redacted] of OFHEO. At this meeting, Kroll indicated that they believed that there was a good chance that Freddie Mac had engaged in macro hedge accounting. During this meeting, [redacted] said that macro hedge accounting was not in accordance with FAS 133.

b6
b7C

b6
b7C

[redacted] provided approximately three written updates via E-mail to OFHEO on the progress of their review. For the most part, these updates were not very different than Kroll's final findings. Kroll's final report, for the most part, did not contradict their early findings. One of [redacted]'s updates was provided to OFHEO in November 2007, a day or so after Kroll had a meeting with representatives from Freddie Mac. [redacted]'s updates were usually sent subsequent to a meeting or discussion.

Freddie Mac had a "unified front," meaning that nearly all of their employees shared the opinion that Freddie Mac had done the accounting properly. [redacted] who had a clear mastery of the literature of FAS 133, was the most adamant. [redacted] was the most helpful Freddie Mac employee that assisted Kroll in their review. [redacted] was also helpful near the end of the project.

b6
b7C

PwC shared Freddie Mac's sentiments that the accounting was correct. Several partners from PwC's national office with significant experience on FAS 133 attended one of the meetings that occurred later in the process. [redacted] one of PwC's engagement partners on the Freddie Mac account, was also knowledgeable about FAS 133.

[redacted] OFHEO's end. [redacted] believed that Freddie Mac had done the accounting wrong. [redacted] carried more of an administrative role. [redacted] never sided with Freddie Mac or with Kroll. [redacted] merely wanted Kroll to figure out the issues and report back to OFHEO. [redacted] did not think that paragraph four of OFHEO's Conclusion Letter to OFHEO was not in line with [redacted] sentiments throughout Kroll's review. [redacted] wanted to get the right answer on the accounting issue. [redacted] thought that the Conclusion Letter reflected a policy decision that was not made by [redacted]

b6
b7C

b6
b7C

[redacted] does not recall when he saw OFHEO's Conclusion Letter but was aggravated by it. Prior to the issuance of the Conclusion Letter, [redacted] had theoretical conversations about the "what if" consequences of the final conclusions.

DATE OF REPORT

[redacted] recommended that the date of the Kroll report be 2/27/2008, but the actual report was not completed until after

b6
b7C

318F-WF-238917-KROLL

b6
b7C

2/27/2008. [redacted] provided copies of an unedited version of the report to [redacted] and OFHEO prior to 2/27/2008. [redacted] surmised that date on the final report might have been the last day of Kroll's field work. [redacted] does not know of any reason that the date of the report was required so that Freddie Mac could meet a deadline to report on their financials.

[redacted] exchanged E-mail messages with [redacted] of OFHEO in which OFHEO requested a final copy of Kroll's report that contained [redacted] signature. [redacted] also received an E-mail message from [redacted] requesting that Kroll change their final report to not cite OFHEO's Conclusion Letter.

b6
b7C

FD-302 (Rev. 10-6-95)

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/17/2009

GRAND JURY MATERIAL - DISSEMINATE PURSUANT TO RULE 6(e)

[redacted] was interviewed at [redacted] After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information: b6 b7C

EDUCATION & WORK HISTORY

[redacted]

1-4 dp

b6 b7C

[redacted] has investigated Financial Accounting Standards (FAS) Rule 131 before, but had no experience with FAS 133 prior to working on the Freddie Mac project. Accounting rules, including FAS 133, are often widely interpreted especially when the new rules come out. Also, prior to the Freddie Mac project, he had never worked on a company financial restatement or worked with a company in the financial sector. b6 b7C

Investigation on 03/10/2009 at Los Angeles, California

File # 318F-WF-238917-KROLL Date dictated NA

by SA SA [redacted] :dp dp b6 b7C

— 16

Freddie/[redacted].302

WJRB

OFHEO & FREDDIE MAC

b6
b7C

In early 2007, Kroll signed an agreement with the Office of Federal Housing Enterprise Oversight (OFHEO) to conduct a review of Freddie Mac's cash flow hedge accounting. OFHEO's initial engagement letter to Kroll indicated what OFHEO wanted Kroll to look into Freddie Mac, specifically their Key Term Offset (KTO) method and their assessment of hedge effectiveness.

[redacted]

b6
b7C

FINAL REPORT

Kroll's final report was produced after an evolution of discussions with Freddie Mac and [redacted] believes that Kroll's report is accurate. With the exception of clearing up a few issues along the way, Kroll's final report was not significantly different than the findings that Kroll shared with OFHEO and Freddie Mac early in the process. Kroll's early opinions, after reviewing only the first six or eight documents, were similar to their final conclusions. Kroll provided a number of updates to OFHEO throughout their review. The major issues uncovered by Kroll were never resolved to Kroll's satisfaction.

[redacted] and was a crucial contributor to Kroll's review. [redacted]'s involvement with Kroll on the project was significant to OFHEO in order for Kroll to win the business. [redacted] provided the general direction that Kroll followed. He

b6
b7C

318F-WF-238917-KROLL

 b6 b7C

reviewed all of the information and drafts produced by Kroll. The final report was a compilation of Kroll's opinions and [redacted]s.

[redacted] meeting with [redacted] of Kroll, [redacted] Freddie Mac, Freddie Mac's General Counsel, five individuals from PricewaterhouseCoopers LLC (PwC), OFHEO Director James Lockhart, as well as others. By the time of the final meeting, Kroll had expressed their concerns about the hedge accounting to Freddie Mac and OFHEO numerous times. The final meeting was led by [redacted] from Kroll's perspective. Freddie Mac and PwC also laid out their positions.

b6 b7C

Kroll also had lots of interaction with [redacted] of Freddie Mac throughout their review. [redacted] was one of Freddie Mac's most helpful employees to Kroll.

PwC signed off on Freddie Mac's financials when the accounting in question was done. PwC and Freddie Mac did not agree with Kroll's opinions. They shared the opinion that Freddie Mac had done the accounting properly. PwC believed that the accounting was either correct or it was an outdated issue that did not need to be retroactively corrected.

CONCLUSION LETTER

OFHEO's mission was to evaluate the safety and soundness of Freddie Mac and therefore, the purpose of OFHEO's review of Freddie Mac's accounting was not a typical straightforward accounting review.

b6 b7C

[redacted] saw a copy of OFHEO's conclusion letter a few days after it was issued. It was brought to his attention after PwC had brought it to [redacted]s attention. OFHEO's conclusion was not unexpected by [redacted] was not privy to the conversations between the OFHEO employees where they reached their final conclusions. Other than the conclusion letter, [redacted] of OFHEO never shared with Kroll her personal opinions on the accounting issues. [redacted] did not have any conversations with Freddie Mac, PwC or Kroll after he saw the conclusion letter.

b6 b7C

 b6 b7C

[redacted] of OFHEO was knowledgeable about the accounting issues and agreed with Kroll's analysis that Freddie Mac's accounting was not in accordance with FAS 133.

Kroll's final report incorporated a portion of OFHEO's conclusion letter. The date of their final report may have coincided with the day that Kroll's field work on the project ceased. Kroll's opinions did not change after their field work ceased.

b6 b7C

There was no sense of urgency expressed to [redacted] about completing the Kroll report on or before the date of the conclusion letter. The timing of Freddie Mac's preferred securities offering and their registration with the SEC might have been possible factors for the timing of the issuance of OFHEO's letter.

At the time of the issuance of OFHEO's conclusion letter, OFHEO, Freddie Mac and Kroll were still in the process of analyzing one of the issues in which Kroll was reviewing. The preliminary analysis had already been done, but they had not finished. Kroll never finished the analysis because there was no point after the conclusion letter was issued.

FD-302 (Rev. 10-6-95)

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/17/2009

GRAND JURY MATERIAL - DISSEMINATE PURSUANT TO RULE 6(e)

[redacted] Also present for the interview were [redacted] After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information: b6 b7C

[redacted] b6 b7C

1-3

[redacted] had no experience with FAS 133 prior to working on the Freddie Mac project. [redacted] has experience in accounting investigations, Generally Accepted Accounting Principles (GAAP) and some hedge accounting experience.

Kroll was hired by the Office of Federal Housing Enterprise Oversight (OFHEO) in the Summer or Fall of 2008 to review Freddie Mac's cash flow hedge accounting. At the time of Kroll's initial engagement with OFHEO, [redacted] was already in the [redacted] would b6 b7C

Investigation on 03/11/2009 at Los Angeles, California

File # 318F-WF-238917-KROLL Date dictated NA

by SA SA [redacted] :dp dp b6 b7C

-17

Freddie / [redacted] 302

b6
b7C

[redacted]

[redacted] with Kroll. [redacted] was contacted by [redacted] who had concerns with Freddie Mac surrounding their application of Financial Accounting Standards Rule 133 (FAS) 133. [redacted] brought Kroll onto the project because he did not have a team to do the ground work needed for the project. OFHEO wanted [redacted] on the project because of his experience. OFHEO had also employed Kroll's New York office on a previous and unrelated project, and it is possible that OFHEO could have reached out to Kroll's New York office before reaching out to [redacted]

b6
b7C

[redacted]

b6
b7C

OFHEO signed an engagement letter with Kroll to review Freddie Mac's accounting. [redacted] The OFHEO engagement letter was vague which is typical of engagement letters because Kroll does not usually know how things will progress at the time they take on a client. Because he was not directly involved in the negotiation, [redacted] does not recall the details of what OFHEO wanted Kroll to investigate. They wanted Kroll to look at Freddie Mac's use of FAS 133. Kroll was not hired to look at all of Freddie Mac's hedge accounting; only a certain pool of transactions with durations under one year. OFHEO pointed Kroll to look at the specific transactions and time periods for which they had concerns.

Kroll looked into the following issues with Freddie Mac's hedge accounting: did they use proper documentation, what qualified to be a hedge, what was their hedging strategy, were they within their own strategy, and did their accounting support their initial adoption?

Freddie Mac had previously done a financial accounting restatement. By the time they hired Kroll, OFHEO had already begun

looking into their concerns and had formed some opinions. While they had formed their own initial opinions, OFHEO allowed Kroll to reach their own interpretations of FAS 133.

b6
b7C

The purpose of FAS 133 is to provide guidance on how to account for the use of hedges to offset future risks incurred from operational business transactions. If the hedge is a true hedge, that is one that does offset the transaction, then FAS 133 applies and the gains or losses incurred from the hedge can be deferred. This is beneficial to companies who incur major losses on hedges. It gives the company the ability to defer losses over time and make their current earnings and income look better. It also might give a more accurate picture of the companies true financial picture based on their operational business. If the accounting is done properly, [redacted] believes this to be a legitimate practice.

Kroll was hired by OFHEO because FAS 133 was a complicated accounting rule that had been redone a number of times and had many interpretations. Similar to other accounting rules, FAS 133 had many subtle changes over time which [redacted] characterized as a normal "ebbing and flowing" process. The proper accounting was open for opinion during the time that Freddie Mac had entered into their hedges and done the accounting. FAS 133 was not clear at that time. Although it is complicated, the U.S. Securities & Exchange Commission (SEC) has brought case actions against violators of FAS 133.

Kroll provided their preliminary findings to OFHEO and provided status updates to them throughout their review. The updates were provided in several discussions and also in at least one report. OFHEO's general opinion throughout the review was never absolute, but OFHEO shared the same concerns as Kroll that Freddie Mac had not done the accounting properly. OFHEO was trying to figure out the proper accounting interpretation. [redacted] did not feel that OFHEO's conclusion letter to Freddie Mac was that different from their sentiments.

b6
b7C

Throughout their review, Kroll was constantly looking for more evidence from Freddie Mac. [redacted] was involved in calls and meetings with Freddie Mac. Freddie Mac solidly viewed that they had accounted properly for FAS 133. They tried to get info to Kroll to help Kroll complete their analysis. Freddie Mac's auditor, PricewaterhouseCoopers LLC (PwC), also held the position that Freddie Mac had done the accounting properly.

 b6 b7C

[redacted]

[redacted] has no knowledge of why Kroll's final report was dated on the day that it was.

Since OFHEO's conclusion letter, [redacted] has spoken to [redacted] but they did not discuss [redacted]'s opinion about OFHEO's conclusions. [redacted] with Freddie Mac or OFHEO [redacted] b6 b7C

FD-302 (Rev. 10-6-95)

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/17/2009

GRAND JURY MATERIAL - DISSEMINATE PURSUANT TO RULE 6(e)

[redacted] Also present for the interview were [redacted] After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information:

b6 b7C

[redacted]

b6 b7C

[redacted] met [redacted]'s role was to review Kroll's work. Kroll brought their concerns to [redacted] and [redacted] provided his opinions. [redacted] agreed with the majority of the issues that Kroll found.

b6 b7C

The first alarm that Kroll encountered was that early on Freddie Mac's rates did not correlate. [redacted] ran regression analysis to see if Freddie Mac's interest rates were appropriate under Financial Accounting Standards Rule 133 (FAS 133). The regression analysis compared interest rates for transactions with three month durations to those with six to nine month durations. Kroll was

b6 b7C

1-2 dp

Investigation on 03/11/2009 at Los Angeles, California

File # 318F-WF-238917-KROLL Date dictated NA

by SA [redacted] SA [redacted]:dp dp

— 18

Freddie/[redacted] 302

W2OB

318F-WF-238917-KROLL

Continuation of FD-302 of [redacted], On 03/11/2009, Page 2

looking at very historical data from Freddie Mac and the rates they reviewed dated back to the early 1990s. Based on the regression analysis that [redacted] conducted, Kroll found that at the beginning, Freddie Mac's rates did not work as their policy stated. They were off by a bit, but they were close. Freddie Mac told Kroll that they used the London Inter Bank Offering Rate (LIBOR). b6 b7C

[redacted]

Another issue that Kroll uncovered in their review of Freddie Mac's hedge accounting was that FAS 133 was very specific about the need for proper documentation. [redacted] and Kroll requested numerous documents from Freddie Mac that Freddie Mac never provided. [redacted] of Kroll likely made the requests for documents. [redacted] did not communicate directly with Freddie Mac. She did communicate with [redacted] of the OFHEO. For the most part, [redacted] b6 b7C

Another issue that Kroll uncovered in their review of Freddie Mac's hedge accounting was that Freddie Mac used a short cut method of calculating the effectiveness of their hedges. Kroll thought that Freddie Mac's short cut method was unqualified under the rules of FAS 133. Kroll thought that Freddie Mac should have done their accounting with respect to the short cut method differently.

b6 b7C

[redacted] During the meeting, PwC explained how they conducted their audit of Freddie Mac's hedge accounting. Freddie Mac and PwC stood behind their work. They believed that the accounting that had been done was correct. At the time of this meeting, Kroll was still in the midst of their review and had not received all of the documents they had requested from Freddie Mac.

Kroll shared their opinions with OFHEO from the beginning of their work through the end of their work. Kroll produced several drafts of their final report to OFHEO throughout their review process. During the review, [redacted] did not know where OFHEO stood in terms of their position on whether or not Freddie Mac had done the accounting properly. OFHEO did share enough of Kroll's concerns to allow Kroll to continue their review. b6 b7C

318F-WF-238917-KROLL

[redacted] saw a copy of OFHEO's conclusion letter to Freddie Mac. [redacted] thought it was strange that the conclusion letter came out prior to Kroll's final report. She has no idea as to why this occurred. [redacted] was surprised at the content of the conclusion letter as was most of the Kroll staff. She does not understand why Kroll was hired to conduct a review for OFHEO and OFHEO's final conclusions were not in line with Kroll's findings. b6 b7C

[redacted]

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 05/08/2009

[redacted] U.S. Securities & Exchange Commission (SEC) was interviewed at the Offices of the SEC, 100 F Street NE, Washington, DC. Also present for the interview were the following SEC personnel: [redacted] Last Name Unknown (LNU). After being advised of the identities of the interviewing Agents and the nature of the interview, [redacted] provided the following information: b6 b7C

[redacted] reviewed the Kroll Inc. report, dated 2/28/2008 and the Office of Federal Housing Enterprise Oversight's (OFHEO's) Conclusion letter, dated 2/28/2008 prior to the interview. b6 b7C

While some of the issues were more technical and some were more substantive, Kroll's report appeared to be very definitive. [redacted] is not an expert in deep derivative accounting, but [redacted] believed that the issues raised in the Kroll report were "ripe" for bringing to the attention of [redacted] at the SEC for a review and determination. The impact that the issues had on Freddie Mac's hedge accounting were certainly big enough and [redacted] involvement with the Kroll report also elevated the strength of the argument that Freddie Mac bring the issue to the SEC. The fact that Freddie Mac discontinued their hedge accounting practice in 2004 also strengthened the reason for bringing the issue to the SEC. 1-2

[redacted] understood that the general premise of Kroll's argument was that under Financial Accounting Standards Rule 133 (FAS 133), all of the key or critical terms of the hedge should match the underlying hedged item. The accounting rules require specificity of the matching. b6 b7C

In January of 2007, there was a nationwide Certified Public Accountant (CPA) conference in wish the specificity issue was discussed. Following this meeting, the SEC was clear that specificity meant the items had to match to the day. Soon after the CPA conference, the SEC met with the six largest accounting terms to further discuss the issue. Following this meeting, the SEC indicated that the key terms did not have to match up on a daily basis. A company could match on a more broad level, such as b6 b7C

Investigation on 05/08/2009 at Washington, DC

File # 318F-WF-238917-KROLL Date dictated

by ~~SA~~ SA [redacted]:dp b6 b7C

Freddie / [redacted] - 302 — 19

15 days, but the company needed to provide a reasonable basis for doing so.

[redacted] did not have enough information to make a determination on whether Freddie Mac had or had not done the accounting properly. [redacted] did not feel that [redacted] had enough information to determine whether Freddie Mac was in non-compliance or Kroll was just being strict about the interpretation of specificity. b6 b7C

In their report, Kroll also raised the concern that Freddie Mac did not have the proper documentation to support their accounting elections. [redacted] believes that an absence of documentation on this issue is a serious concern because the FAS 133 election must be made prior to the hedge, not in retrospect. Under FAS 133, a company is not afforded the opportunity to see which method is most beneficial to the company based on the performance of the hedges, and then make their accounting election.

[redacted] could not think of any reason why the Federal Housing Finance Agency (FHFA) would not recommend that Freddie Mac bring the issue to the SEC for a ruling. [redacted] is not aware of any disclosure obligation under the Generally Accepted Accounting Principles (GAAP) on the part of Freddie Mac for merely bringing an issue to the SEC for their review. There may be a disclosure obligation in the Management Discussion & Analysis (MD&A) report. b6 b7C

[redacted] did not know former Freddie Mac Acting CFO David Kellermann. [redacted] was aware that Freddie Mac (as well as Fannie Mae) recently consulted [redacted] the SEC on a separate FAS 133 issue related to FAS 133 10(d). Freddie Mac and Fannie Mae made separate submissions and ultimately the SEC was comfortable that both accounting elections were appropriate. [redacted] was not directly involved with this review. He assumed Kellermann and [redacted] were involved from Freddie Mac. The SEC issued their ruling on this issue the day before Kellermann died. b6 b7C